

97-84050-26

American Bankers  
Association

China, an economic  
survey

[New York]

[1923]

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Box 135 American bankers' association. Commission on commerce and marine.  
China; an economic survey, 1923. Pub. by the Commission on commerce and marine of the American bankers association.  
cover-title, 40 p. diagr. 23 cm.

8148

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TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 11:1

IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-25-97

INITIALS: MS

TRACKING # : 22228

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# CHINA

## An Economic Survey

308

Z

Box 135

1923

PUBLISHED  
BY THE  
COMMISSION ON COMMERCE AND MARINE  
OF THE  
AMERICAN BANKERS ASSOCIATION

Documents and publications  
collected by the Department  
of Commerce constituted the  
source of much of the fol-  
lowing material.

## CHINA

### An Economic Survey

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The following pages present an attempt to exhibit a balanced statement of the outstanding factors of China's present day economic life and to indicate the most probable developments of the immediate future, particularly with reference to American interests.

#### RESOURCES.

##### Population.

Six-sevenths of China's population is today living in one third of its area. Due to lack of railways and other modern communication facilities the Chinese have crowded themselves together into a comparatively small area, leaving many thousand square miles of land, abounding in rich resources, undeveloped and sparsely populated and creating the impression abroad that the country is overpeopled. China proper possesses 2,000,000 square miles of territory with an estimated population of 400,000,000 persons. In this vast empire, larger than the United States, there are less than 8,000 miles of railways, and only a few hundred miles of good motor roads, while the United States claims 265,000 miles of railways, and probably 250,000 miles of metal-surfaced motor roads.

One has only to take a trip over the Peking Suiyuan Railway to Inner Mongolia, a country which before the advent of the railway was as sparsely populated as the western plains in America, to find the Chinese by the thousands making their way into that land of promise without any Government aid, or the encouragement of land development companies. Similarly the building of railways in Manchuria has been followed by millions of immigrants from overpopulated Shantung, who are transforming Manchuria into a granary for not only a large portion of

Asia but for Europe as well. Within the past six years the South Manchuria Railway has increased the amount of produce hauled from 5,000,000 to 10,000,000 tons. During 1920 it hauled 60,000,000 bushels of soya beans, 20,000,000 bushels of wheat, and 17,000,000 bushels of kafir corn, compared with 30,000,000 bushels of soya beans, 650,000 bushels of wheat, and 4,800,000 bushels of kafir corn during the year 1915.

In the delta of the Yangtze there is a population of over 40,000,000 people. During the past few years a Chinese city has sprung into existence in the former Russian populated city of Harbin, Manchuria, with a population in excess of 300,000. There are 70,000,000 people in so-called West China, which includes the Provinces of Szechwan, Shensi, Shansi, and Kansu, who are cut off from economic communication with the rest of China and hence with the rest of the world. The 50,000,000 people of Szechwan are as near self-supporting as any people can be. They could not get to the sea for salt, so they have drilled into the ground over 3,000 feet for their supply. The Chengtu Plain, 60 by 40 miles, supports a population of 5,000,000, and has an irrigation system which dates back to the third century before the Christian era. Eighty-five per cent of China's population are estimated as engaged in agricultural pursuits and the percentage of illiteracy is probably slightly less than 90 per cent. The relation between these two percentages is rather an intimate one. The Chinese agriculturists have remained static, unaffected or changed by modern influences for over three thousand years. New movements, tendencies, and reactions in China represent the immediate interests of but 10% of the entire population. The tremendous significance of this 360,000,000 passive population acting as a dispassionate check on things new and different are the foundation of that "stolid indifference" and "inherent stability" so often quoted in connection with Chinese characteristics. Five hundred thousand is the figure given for labor engaged in modern industrial plants in China. This is the exact equivalent of the number of laborers, mostly agricultural, migrating to Manchuria each spring and departing in the fall. Thus it will be seen that as yet the industrialization of China is in its infancy.

#### Agricultural Resources.

The wide range of climate, the rich soil, and the simple wants of the people make China one of the few countries of the world that can, under normal conditions and with a good elementary distributing system, be self-supporting. Some of the most prom-

inent Chinese products are silk, tea, cotton, beans and by-products, eggs and products, rice, wheat, tobacco and various fruits.

China has long been noted for her silk. In 1921, the exports of silk products had risen to \$116,051,720, most of which went to the United States. Ancient methods of sericulture are gradually being replaced by scientific instructions, bettering production and enabling China to take a still more important world position in this trade than it has had in the past.

The three northern provinces are the center of the soya bean industry. Bean oil, which is extracted from the soya bean, is largely used throughout the East in cooking, while beans and bean cake have become important articles of export to Japan and Europe for fertilizer and cattle food. The rise of these products, now occupying second place among China's exports, has been accomplished within a few years. Tea is an important Chinese product and the enormous home consumption combined with her large exports probably makes China the greatest tea producing country in the world.

China is the third ranking country in the production of cotton, being exceeded only by the United States and India. Twenty years ago there were only two cotton mills in China. In 1922 there were 83 mills and 2,666,000 spindles in operation and 300,000 more in the process of erection. Cotton production is rapidly increasing but is still capable of vast development. Eggs and egg products are becoming of increasing importance in the export trade of China. They are exported all over the world, but chiefly to Japan, Hongkong and Great Britain. Exports of these products in 1921 totalled \$18,769,871, which is a large increase over previous years.

Sugar is raised to the largest extent in Kwantung and Fukien provinces and shipped to the refineries at Amoy and Hongkong. Mongolia cattle are well-known in the East, cattle raising being conducted on a large scale in that territory. Western Asia has long looked to Mongolia for her supplies of beef. Pigs are found almost everywhere in China and pig bristles have become quite an item of export in recent years. Poultry is raised chiefly along the southern canals of the Yangtze basin and in South China.

#### Future of Chinese Agriculture.

A large portion of China's population must remain agricultural if the prime needs of the people are to be met. The demands upon the country for improved methods in agriculture, irrigation, forestation, coping with plant and animal diseases,

transportation and rural credits are indeed pressing, and with their solution the whole economic structure of Chinese society will be raised to a higher plane. There is the danger that the people of China will lose sight of the relative importance of agriculture and that the migrations of rural people to the cities because of the inducements offered by the factories and modern industrial organizations will be hard to withstand. There is already a decided movement in this direction. One of the greatest problems confronting the Chinese educator and administrator of today is how to make conditions among the farming classes such as to insure to the nation in the future an intelligent rural population, capable of applying modern civilized methods to the opportunities which their environment will present. The development of China's other resources can well wait upon a more perfect system of agricultural economy, strengthened by better transportation and insuring a strong basis for ultimate industrial growth.

#### Mineral Resources.

The basis of China's potential growth, as an industrial nation, is well grounded in the possession of ample mineral resources. These include coal and iron in substantial quantities as well as other important minerals.

#### Coal.

China's resources in coal, as well as in iron, have been greatly overestimated. China, however is the only country on the Pacific excepting the United States with large resources in coal. The coal reserve possessed by China is probably between 40,000,000,000 and 50,000,000,000 tons, or one-eighth that of the United States and one-third that of Great Britain. The United States coal output for 1920, however, was 650,000,000 tons, and that of Great Britain 80,000,000 tons, while that of China was only 25,000,000 tons, most of which was mined in Chihli Province and in Manchuria. During the last eight years China imported 11,300,000 tons and exported 13,800,000 tons of coal.

According to a prominent Chinese authority, China's proportion of anthracite to bituminous coal is over twice that of the world in general, being greater than 1 to 3, whereas that for the world generally is about 1 to 8. The problem of accessibility to some of the richest coal deposits in China, however, will only be solved with increased railway facilities. With cheap labor, such as ob-

tained in China, coal can be mined at \$0.75 to \$1.50, silver, a ton (2 silver dollars equal to one gold dollar). China's modern industrial development hinges upon its ability to capitalize these resources in coal and iron.

#### Iron Deposits and Works.

Linked with coal in the industrial development of any nation is iron. Here again China's resources have been greatly exaggerated. The Geological Survey estimates the known iron reserve of China as follows: Total of 677,000,000 tons, distributed as follows: 95,500,000 in Chihli Province; 387,000,000 in South Manchuria; 23,000,000 in Shantung; 160,000,000 in the Yangtze Valley Provinces, and 7,500,000 tons in Fukien Province. This authority estimates this amount as probably about one-half of China's total reserve in iron ore and conservatively places the total at 1,000,000,000 tons, one-half of which is capable of working by modern methods. Thus China has one-quarter the reserve of the United States, four-fifths that of England, and one-third that of France or Germany before the war. The present annual production of iron ore in China is about 1,500,000 tons, of which about two-thirds is smelted in China. In the United States the production of iron ore in 1920 was 70,000,000 tons and about 36,000,000 tons of pig iron.

Japan has contracted for 1,000,000 tons of ore annually from China for the next few years. The exceedingly low per capita consumption of pig iron in China is noteworthy. It equals about 0.0025 ton per head, compared with a consumption of 0.34 ton per head in the United States, a very significant contrast between the industrial developments in the two countries. There are eight iron works constructed or under construction in China, with a total annual output equal to about 1,000,000 tons.

The question of transportation figures again in its relations to the iron industry in China. The slowness in the development of this industry appears to be due in a large measure to transportation. The Hanyang Iron and Steel Works, at Hankow, produce pig iron at a cost of \$48.50, silver, a ton, in contrast with a cost of \$22.00 a ton at the Japanese plant at Penghsih, Manchuria. The Hanyang Works draws upon its own stores of ores, producing its coke from its own coal mines; hence the market fluctuations in the prices of raw materials do not enter into calculations. The greater part of the difference in costs is attributed to the one item, coke, and it is the transportation factor which is accountable in the main for this. The coke landed at Hanyang from Pinghsiang, a distance of about 200 miles, costs \$24.54 compared with a cost

of \$5.74 at Penghsihu. At Penghsihu, however, the coke is used where it is produced, so transportation is not a factor. The ore at Hanyang costs \$6.55 compared to \$5.10 for the ore at Penghsihu. The Hanyang works have their own boats to carry coke and ore, yet the cost is very high. It is contended that if cheap railway transportation be substituted for the boats the cost could be greatly reduced. Although the Penghsihu iron involved much lower production costs when transported to the market, it was sold at more than \$40.00, silver, a ton.

Unless transportation is facilitated, China cannot expect to compete with other nations in mineral production, nor develop basic industries which produce bulky commodities made from equally bulky raw materials.

#### Other Minerals.

China has also minerals other than coal and iron. Over 50% of the world's resources in antimony are accredited to China. During the war this mineral was in heavy demand and China profited greatly. In the production of tin, China ranks next to the Malay States and Bolivia. The exports for 1920 amounted to about \$15,000,000 silver. Practically all of this came from Yunnan Province. Kwangsi and Hunnan Provinces also contain some deposits, but here again the difficulties of transportation have prevented development. In copper, China is apparently poor, having exhausted most of its immediately accessible resources in this metal which has figured so prominently in the arts and industries of the people. China imports large amounts of copper from Japan.

Lead and zinc are found in Hunan and Yunnan. Under present conditions it does not pay to work these deposits. The disturbed political conditions and poor transportation in Hunan undoubtedly account in a measure for the present inactivity. During the war there were heavy shipments of tungsten, molybdenum and manganese from China, used in connection with steel manufacture, but the sudden drop in prices and other unfavorable factors resulted in cutting off the demands from abroad. The local consumption is not as yet sufficient to make the working of these mines profitable.

Although China is one of the largest silver consuming countries, ranking second to India, it produces no silver; hence this mineral, so important to the economic life of the people, must be imported.

In petroleum, investigations have not yet proceeded sufficiently to justify a positive statement. The general impression

among geologists seems to be that China contains resources in petroleum which may figure prominently in the future economic life of that country.

China is rich in limestone and other materials for the manufacture of Portland cement, and the cement industry is growing. The absence of accessible timber for lumber makes cement abnormally in demand as a building material. Road work, which is now at its inception, will require large quantities of cement.

All of these minerals have been mined for centuries by crude native methods, but many obstacles stand in the way of applying modern methods to China's development of mineral resources. The new mining law requiring 50% Chinese ownership in mining companies, the difficulty of obtaining suitable labor and timber, and the uncertainty surrounding the titles to concessions under varying political conditions, all add to the cost and risk of mining under modern conditions. The century-old customs existing in China and surrounding all enterprises and industrial undertakings are also factors of inestimable importance and worthy of careful study and consideration in any contemplated development by means of corporate enterprise.

#### INDUSTRIAL DEVELOPMENT.

The corporate Chinese company is still the exception rather than the rule. Chinese business is still in the main a family affair. To the visitor to China it appears to be a country of small shops, a nation of shopkeepers, as it were. Domestic household industry still predominates. There are millions of hand looms scattered over the country. The greater part of the native manufactured cotton cloth is made on the hand loom. The hair-net and lace industries, which thrive entirely upon demands from abroad, are still household industries, the by-products of the labor of the women of the country; similarly with the straw-braid industry. The egg-products industry may also be described as a by-product of labor. There are no poultry farms or poultry industry in China. Many villages actually prohibit any one family keeping more than a limited number of chickens, so as to protect the crops, which are not fenced, from being foraged by chickens. Eggs are taken in small lots, probably a half a dozen or so, to the markets by the women in the country; purchased by middlemen and collected for shipment to the ports, where they are prepared for export by foreign machinery as frozen eggs, albumen, yolk, and desiccated eggs.

### Changing Systems of Industry in China.

Under the family system, formerly universal in Chinese industry, individual business thrived and there was no incentive to encourage corporate bodies. The family interests remained intact and business was a family affair. The good name and credit of the family had to be preserved and the individual responsibility attached to one family was shared by all members of the family. Thus the obligations of one member became those of the other members. This assisted very materially in preserving the sanctity of the contract, verbal or written.

Chinese society developed as one in equity rather than one in law. The ideas of strict legal definition and terminology were foreign to the Chinese. There was no place in China for the lawyer, for the decrees of custom, tempered by equity, generally prevailed.

These conditions are now in the process of transformation. The family system is gradually breaking down. Corporate enterprises which were impossible under the old system are now becoming a recognized necessity, and the responsibility of trusteeship is beginning to be appreciated. Equity is giving way to law, as rights and obligations must be clearly defined in a corporate society. A civil code is gradually being built up and the interests of shareholders will have to be protected. Through such a code of law, along with the machinery of modern courts to interpret it, the lawyer becomes a necessary institution.

*Note.*—It is only where household industries have branched out to meet the need of their products from abroad that modern machinery and corporate methods of doing business have become necessary.

### Use of Power.

During the past ten years, however, China has been making substantial strides in such modern industrial activity. These developments are revolutionizing the economic life of the Chinese people. Shanghai has become the principal industrial center, due to its strategic position as the heart of the most densely populated section of the country, its advantages in cheap transportation, and the cheap power furnished through the broad-visions policy of the municipal electric-power plant. Hankow, Tientsin, Canton, Wusihu, and other cities are rapidly assuming the appearance of modern industrial centers.

Edward Everett Hale charted the course of industrial development when he said: "The extent to which the world had

changed the laborer who uses his body into the workman who uses his head is the index of civilization. The true measure of industrial progress is found in the amount of mechanical power used to supplement man power." If we had to hire coolie carriers to carry the freight, not to mention the 1,000,000,000 passengers which our American railways hauled in 1921, it would take twice the present estimated population of China, or 800,000,000 men, each man carrying 160 pounds 15 miles a day for 365 working days. It is also calculated that the motive power we are now using, steam and electricity, gives us the equivalent of five energy servants for every man, woman and child in the United States, which in itself is equivalent to giving us industrially the effectiveness of 500,000,000 people working without this power. The application of this statement can be appreciated in a country like China, where there has not yet been developed one horse-power of its wonderful potentialities in hydroelectric power and where steam power is only at the threshold of its possibilities in modern industry.

### Manufacture of Cotton Textiles.

Greater progress has been made in the manufacture of cotton textiles in China than in any other field of modern industry. The first ten years of efforts in cotton manufacture were unprofitable, although the same basic conditions to success prevailed then as favor the industry now. China then produced considerable raw material, was possessed of a plentiful supply of cheap labor, and had one of the biggest markets in the world at home. Those who witnessed the apparent failure of the industry during the first decade proclaimed that China would never become an industrial nation, contending that the Chinese lacked the capacity for successfully handling organized capital, directing large groups of laborers, or using modern machinery.

The Chinese have since proven signally successful in the manufacture of cotton yarn and cotton cloth by modern methods. Chinese mills, with Chinese capital, Chinese management, Chinese labor, working on domestically produced raw material and disposing of their products in Chinese markets are now paying upwards of 50% per annum dividends. The developments in this industry are progressing so rapidly that some have expressed themselves as fearful lest it be overdone.

It may be pointed out that China imported during the year 1920, \$125,000,000, silver, worth of cotton yarn, \$265,000,000 worth of cotton cloth, and 192,000 bales of 477 pounds each of raw cotton. It exported during the same period \$4,500,000 worth of cotton



yarn, \$7,500,000 worth of cotton manufactured goods. It is apparent from these figures that it will be a long time before China is able even to supply its domestic needs. It must also be borne in mind that while striving to meet these demands the price of labor in China will increase, as is already evident, and with the advance in labor costs the purchasing power of the laborers will improve, resulting in heavier demands from the masses for cotton goods. Thus it is more likely that with the developments in the cotton-manufacturing industry of China the demands for cotton goods will for many years exceed the ability of the people to meet them.

Nationality of Management	Mills	Spindles Working or Under Construction		Spindles on Order		Total Number of Spindles	
		British	American	British	American	British	American
British.....	5	258,808		4,000		262,808	
Japanese.....	27	336,452	27,456	441,500	35,000	777,952	62,456
Chinese.....	51	802,647	437,512	367,316	345,908	1,169,963	783,820
Total.....	83	1,397,907	465,368	812,816	380,908	2,210,723	845,276

According to this table, there are at present, 1922-1923, nearly 2,000,000 spindles in operation and in course of construction and an additional 1,000,000 spindles ordered. As for power looms, those in operation, under erection and under order aggregate about 15,000. In the United Kingdom there are 59,000,000 spindles and 840,000 looms; in the United States, 36,000,000 spindles and 443,000 looms; and in Japan 3,600,000 spindles and 45,000 looms. Thus China's position in the modern textile industry is not one which need cause apprehension. The country can easily handle 10,000,000 spindles and 100,000 looms. In capital outlay, 10,000,000 spindles are equivalent to \$800,000,000 silver. It will undoubtedly be some years before so much capital is available for this purpose.

#### Development of Chinese-Owned Manufacturing Plants.

While much of the success in cotton milling in China is due to foreign investment and foreign supervision, the number of Chinese owned, operated and manned industrial plants and corporate business enterprises which are achieving success finan-

cially are on the increase. Through experience, the Chinese captain of industry is learning to compile production costs, to set aside capital reserves to meet emergency and other unforeseen demands, to develop a corps of well-trained and responsible foremen, to keep inefficient and worthless relatives or friends of relatives off the pay rolls. He is beginning to realize that it pays to safeguard the health and welfare of his workers and meet reasonable demands for wage increases. It will probably require some time to develop among the Chinese business public the full significance of the responsibility of trusteeship.

Chinese capital receives very little encouragement from the Government in the development of productive industry in China; in fact it operates in spite of Government handicaps in excessive taxation, which means that if given a reasonably good government, millions of Chinese capital will enter productive industry. During the last 10 years political conditions have been distinctly unfavorable, yet in spite of this situation, which still persists, factories have been springing up throughout the centers of trade, backed by Chinese capital and under Chinese management. At present there is no effective modern civil code or legal machinery in China which offers to the Chinese investor the safeguards which a Western society guarantees to the shareholder of a corporate company. Most of the enterprises started by Chinese capital are located, therefore, in or near the treaty ports, under the protection of foreign extra-territorial law.

#### Labor and Industrial Conditions.

Chinese labor is a factor of no mean importance in any estimate of industrial growth. Eighty-five per cent. of China's population is agricultural, the greater portion of the remainder constituting what may be termed laboring classes, of which probably less than 500,000 are employed in modern factories, principally textile mills.

China has not yet enacted any laws regarding labor, factory conditions, sanitation, child labor, etc. Factories generally operate 6½ to 7 days a week, with two shifts of 12 hours each; where they operate on day schedule, working hours often extend to 14 hours, one shift. Holidays embrace about 10 days for the China New Year and several feast days during each year. Some factories close down one day in every ten. Household or non-factory laborers work long hours, but take out two to three hours a day for meals.

Wages are generally calculated upon the piece basis. Owing to poor communications they vary considerably, being highest in

Dairen and Hongkong, lowest in interior cities, with a high average for China at Shanghai, where ordinary skilled labor averages 70 to 80 cents a day, common laborers 40 cents, women workers 35 cents, children 15 to 20 cents. (Quotations are in silver; \$1 silver ordinarily equivalent to \$0.50 gold). Labor unions are at the inception of development, the craft guilds serving as the nucleus of the modern labor organization. Rapid development in labor-union organization has taken place, especially among the dock laborers in Canton and Hongkong. The Chinese laborer is remarkably good-natured, patient, industrious, able to subsist on comparatively little, possesses splendid endurance, and under proper training and supervision is the equal of the Western laborer.

The following table gives the labor cost for a representative group at Shanghai. Costs here are slightly higher than the average for all industrial centers and as such may be taken as indicative of labor costs in China.

EMPLOYEES	WAGES	
	MINIMUM	MAXIMUM
	Mexican Dollars (Average value 50 Cents U. S. Gold)	Mexican Dollars (Average value 50 Cents U. S. Gold)
<b>UNSKILLED</b>		
Coolies.....12-hour day	\$0.25	\$0.35
Mill Workers:		
Male.....10-hour day	.30	.40
Female.....10-hour day	.20	.25
Children.....10-hour day	.10	.20
<b>SKILLED</b>		
Bricklayers.....10-hour day	.50	.60
Masons.....10-hour day	.60	.80
Carpenters.....10-hour day	.50	.80
Painters.....10-hour day	.50	.70
Machinists.....10-hour day	1.00	2.00
Mechanics.....10-hour day	1.00	2.00
Engineers.....per month	50.00	100.00
Mill foremen.....per month	40.00	80.00
Locomotive Engineers.....per month	45.00	50.00

There is quite a discrepancy between the wages paid Japanese and those paid Chinese where the two types of workmen come into direct competition. According to statistics of the Kwantung Government, the wages in Mukden, Manchuria, are as follows

(values given in gold yen, 1 gold yen equaling about \$0.50 United States currency):

EMPLOYEES	MUKDEN	
	JAPANESE Gold Yen (\$ .4996)	CHINESE Gold Yen (\$ .4996)
Cobblers.....	\$2.00	\$1.50
Farm Hands.....	.....	.45
Weavers.....	3.00	1.10
Dyers.....	2.20	.80
Tailors.....	2.80	1.50
Hat Makers.....	2.80	1.20
Soy Makers.....	2.50	1.10
Confectionery Makers.....	2.00	1.00
Carpenters.....	3.00	1.20
Plasterers.....	3.50	1.80
Stone Masons.....	3.50	1.50
Wood Sawyers.....	.....	1.50
Roofers.....	3.00	1.50
Bricklayers.....	3.00	1.50
Tile Layers.....	3.70	1.50
Glassmakers.....	2.50	1.20
Tinsmiths.....	2.50	1.00
Founders.....	3.00	1.00
Blacksmiths.....	3.00	1.00
Coolies.....	.....	.50

#### Increase in Wages Necessary to Meet Conditions.

Skilled labor, including a considerable number of the textile mill employees, are paid on a silver basis, but day laborers, coolie labor as some designate it, are paid on a copper basis. Theoretically, \$1 silver should exchange for 100 copper cents, but coins in China are a commodity as well as a medium of exchange. The country has never departed from a specie basis. The silver tael, or ounce of silver, is the actual basis of currency, although different communities have different standard ounce units. The Shanghai tael exchanges for about \$1.40 silver, the rate fluctuating between \$1.37 and \$1.41. In subsidiary coins, \$1 silver exchanges for 11 dimes plus 5 to 9 coppers. Owing to the flooding of the country with more copper coins than needed and to the depreciation of the copper cent, the silver dollar which a few years ago purchased 140 copper cents will now purchase from 160 to 200 copper cents. The day laborer, 80% of whose wage is expended on food and lodgings, is paid in copper cents and finds the purchasing power of his

wages continually decreasing, with no compensating increases in pay. This naturally breeds dissatisfaction, especially when we consider that prices of commodities in silver have increased very materially and will continue to do so. Thus wages must increase in China; in fact, they are continually advancing, with as yet no backward strides.

In Shanghai unskilled labor today commands nearly double the wage it received 10 years ago, reckoned in silver. A large foreign import and export firm at Shanghai, operating in connection with its business warehouses for the handling and storage of goods, finds that wages of warehouse men have advanced to such a degree—now being obliged to pay \$0.60 silver a day as compared with \$0.40 a few years ago, and with reduced hours as compared with the working schedules of two or three years ago—that it has put in an electric crane at a cost of \$20,000 gold, which it is calculated will pay for itself in two years. Labor, while plentiful in China, is not a cheap commodity, when efficiency is taken into consideration, and even the cost of such labor as exists is rising from year to year.

Less than 40 years ago the brass cash, 10 of which equalled 1 copper cent, or one-half cent gold, was the coin of the realm. Today in eastern China—that is, in the trade centers in contact with the outside world—the brass cash are almost curios, so seldom are they seen. A coin ten times in value has replaced the cash, indicating the increased purchasing power of the masses. Twenty years ago eggs could be purchased in Shantung at the rate of three for a cent: today they are \$1.25, silver, a hundred. The cost of living and prices generally have advanced over 100 per cent. during the last 20 years. There are indications that the wealth of the country will continue to increase; in fact, in the opinion of many, it will increase far more rapidly during the next quarter century than during the last 25 years. This would be greatly accelerated by stable government, which has been heretofore non-existent.

#### Cost of Living in Shanghai.

The Ministry of Finance has a Bureau of Markets in Shanghai, which keeps records of the market prices of a number of staple commodities and computes index numbers from them. The work began in September, 1919, and has continued without interruption. The commodities are divided into eight groups, namely, cereals, other food products, textiles, metals, fuels, construction materials, industrial supplies, and sundries. The wholesale prices

of these commodities in September, 1919, are taken as 100 in each case, and prices are then computed into index numbers on that basis. The following table, giving the index numbers of the first, second, third and fifth groups, as well as the average for the eight groups from 1919 until the present time, will show how prices have advanced, and with them the cost of living in Shanghai. To some extent they also reflect the cost of living in other parts of the country.

MONTH	Cereals	Other Foodstuffs	Textiles	Fuels	Average
March, 1922.....	136.4	119.4	108.2	92.3	114.3
February, 1922.....	132.0	115.2	108.9	91.7	111.7
January, 1922.....	128.2	114.6	110.0	91.0	111.9
December, 1921.....	119.3	112.3	106.9	92.4	109.9
November, 1921.....	116.3	111.2	140.8	94.5	108.6
October, 1921.....	117.9	112.7	107.8	92.9	110.2
September, 1921.....	122.2	110.3	107.4	93.3	111.4
August, 1921.....	118.6	114.1	106.1	94.3	111.9
July, 1921.....	111.8	108.8	103.3	94.3	109.2
June, 1921.....	113.9	113.5	103.0	96.9	111.4
May, 1921.....	110.3	111.2	97.3	99.0	106.6
April, 1921.....	101.0	111.1	97.2	105.1	108.4
March, 1921.....	100.0	115.6	97.0	101.5	107.9
February, 1921.....	98.5	111.9	94.5	103.5	106.9
January, 1921.....	99.9	107.0	93.1	103.1	103.9
December, 1920.....	103.2	108.9	91.8	102.0	104.8
November, 1920.....	95.6	112.5	93.2	102.4	104.6
October, 1920.....	103.2	107.6	94.9	99.2	105.2
September, 1920.....	106.9	107.7	94.7	97.2	105.5
August, 1920.....	108.6	102.4	98.4	94.4	106.2
July, 1920.....	114.7	105.2	100.2	97.1	108.3
June, 1920.....	115.4	106.4	100.8	98.9	109.9
May, 1920.....	105.0	119.0	102.3	99.4	107.9
April, 1920.....	107.2	117.0	103.5	99.5	106.9
March, 1920.....	110.0	108.8	105.5	97.0	106.5
February, 1920.....	109.8	106.2	98.5	99.0	102.1
January, 1920.....	108.5	102.3	95.9	100.0	98.8
December, 1919.....	102.7	97.4	96.8	95.8	97.0
November, 1919.....	103.1	102.9	102.2	103.4	101.1
October, 1919.....	101.4	101.1	102.9	102.9	100.1

#### Need of Cheaper Transportation.

Of equal importance with a plentiful labor supply, in the industrialization of China is the development of adequate transportation in the interior. China has made very slow progress in railway construction since its first railway, 40 years ago. The methods under which railways have been built through the granting of exclusive concessions to certain foreign groups has militated seriously against a rapid expansion in Chinese railway construction, because these concessions carry stipulations which make it difficult, if not impossible, to construct lines in proximity to those built. The training of a considerable number of Chinese in rail-

way engineering and operation, however, promises further construction under native auspices, in the future. The Chinese are now awake to the economic value of the iron road and, with their own men trained in construction and operation, we may hope for faster progress in the building of railways.

On the road from the Wei Basin to the Chengtu Plain, in Szechwan Province, one may meet coolies carrying on their backs loads of cotton weighing 160 pounds. They will carry these loads 15 miles a day for 750 miles at a rate of 17 cents (Mexican) a day, which is equivalent to 14 cents a ton mile. At this rate it costs \$106.25 to transport 1 ton 750 miles. The railways should be able to haul this for \$15, or one seventh the amount. The Peking-Mukden Railway carries coal for the Kailan Mining Company at less than 1½ cents a ton mile. With the coolie carrier the cotton spends 50 days on the road, whereas the railway would make the haul in two days, thereby saving 48 days interest on the money and landing the cotton in better condition. In addition, the railway makes for the expeditious exchange of money, eliminating losses, in exchange, and tends to standardize weights and measures along the line, which is a very important consideration in China, where there are 70 different tael or weight units for silver and scores of weights and measures for commodities. Furthermore, the railway tends to eliminate internal tax stations along its line, which are a serious barrier to trade in China. The greater security against brigandage and robbery which the railway affords is a prime consideration in China not only for the passenger traffic but for freight as well.

Wheat in the Wei Basin of Shensi, where the rich soil continues to produce 30 and 40 bushels to the acre after 40 centuries of cultivation, sells at one-third the price of wheat at Hankow, 600 miles away. Yet the cost of cart transportation is so high that it cannot profitably be shipped 300 miles to the railway for transshipment to Hankow. In fact, wheat can be shipped from Seattle to Hankow, nearly 7,000 miles, for about one-half of what it costs to ship it from the Wei Basin in Shensi to Hankow. A similar condition exists in all those parts of China where the people are obliged to depend upon coolie, cart, or pack animal for transportation. In spite of a very low wage rate, this is a serious handicap to the people.

The 260,000 miles of railways in the United States carried, during 1919, 1,238,000,000 tons of all commodities originating on the lines. During the same year the 3,500 miles of railways under the control of the Chinese Government carried 21,400,000 tons. The average length of haul for the American railways was 277

miles, while that of the Chinese was 97 miles. The area of China is one-third again as large as the United States, while its population is four times as great.

It is estimated that China needs 50,000 miles of railways to handle its imperative transportation requirements. Figuring the cost of railway construction and equipment at \$150,000, silver, per mile, the 50,000 miles will cost \$7,500,000,000, silver. The 3,500 miles of railways now being operated by the Chinese Ministry of Communications represent a capital investment of \$500,000,000, silver, including \$120,000,000 worth of equipment. A further \$100,000,000 for equipment will have to be added to this amount during the next two years, bringing the total to \$600,000,000.

#### Growth of Chinese Ports.

Directly connected with railway construction is the question of improved port, harbor and terminal facilities generally. When Shanghai became a treaty port, in 1842, it was not known to the outside world and was not a city of much importance even in China. The site of the present city was mud flats and rice fields at the time that it was arranged to lay out a section where foreigners could reside and do business. The assessed valuation of the land, exclusive of improvements, in the international settlement is now over \$200,000,000, silver, and contiguous territory, with the port limits, including the French concession, would probably increase this amount by 50 per cent. The trade of Shanghai has exceeded \$1,000,000,000 silver. It is safe to estimate that the equivalent of \$50,000,000 silver was put in building construction in Shanghai during 1921, providing for nearly 500 modern foreign-style residences, and probably 5,000 Chinese houses. In addition, many business buildings, warehouses and industrial plants were erected. Next to Shanghai, Harbin witnessed the greatest activity in building construction during the year, spending probably \$30,000,000 silver. Shanghai is probably destined to become one of the world's most populous cities, since it is located at the mouth of a watershed which claims one-tenth of the world's population. There is no economic western outlet for this population. The Yangtze Delta, with an area 41% of that of the United Kingdom, has a population nearly as great. Other strategically located ports such as Tientsin, Tsingtau, Haichow, Canton and others are bound to grow in wealth and importance with the development of railway, waterway and road transportation.

## FOREIGN TRADE.

### Per Capita Growth of Chinese Trade.

With the development of better means of transportation the growth of China's foreign trade is bound to take place. China's per capita foreign trade and purchasing power have long been a matter of interest to all concerned in the Far Eastern Trade. Although, because of local conditions and circumstances, it is impossible to arrive at any figure worth quoting for the per capita purchasing power, by taking the usually accepted figure of 400,000,000 as the population of China, and foreign trade figures as given by the Chinese Maritime Customs, it is possible to present some interesting observations relative to the potentialities of China's trade.

In the year 1901 the total value of the foreign trade of China was 437,959,675 Haikwan taels, or a per capita value of 1.09 taels. Since the average exchange value of the tael was \$0.75, the per capita value, in United States currency, amounted to \$0.82. In 1911 China's foreign trade had increased to a total value of 848,842,109 Haikwan taels, giving a per capita value of 2.12 taels, or U. S. \$1.38, at the average exchange rate of the tael. In 1921 the average was 3.77 taels per capita, or \$2.87 U. S. currency. The years 1901, 1911 and 1921 have been chosen for this comparison since there was a similarity in the characteristics of the internal conditions prevailing in the three years. The year 1901 immediately followed the Boxer Rebellion; 1911 was the year of the overthrow of the Chinese monarchy; and 1921 was the year following the recent world-wide industrial depression.

### China's Foreign Trade Increases Despite Obstacles.

The inherent vitality of China's trade is attested by the increase of four million taels in the Customs' returns for 1922. This condition, during the darkest period in China's economic and political life, indicates a steady, progressive development of trade in the face of almost insurmountable obstacles. Since eighty-five per cent of the population of China is engaged in agriculture, under conditions which isolate them politically, and since interior China is largely dependent upon communication with the outports for supplies, it is evident that there must be improved order in the provinces, disbandment of superfluous troops and an effective Central Government before China's trade can be stabilized and the natural development of Chinese commerce with other countries realized.

Despite interrupted railway communications and seizure of revenue and rolling stock by military leaders, banditry on land and sea, and other disturbed conditions, China trade is fundamentally sound and China under normal conditions is a potential market of remarkable scope.

### Foreign Trade by Countries.

The following table furnishes a comparative statement of China's foreign trade by countries for the years 1913, 1920 and 1921. The difference in the rate of exchange used for the conversion of the Haikwan tael into United States currency for 1920 and 1921 (1 tael = \$1.23 in 1920, and \$0.76 in 1921) should be kept in mind in considering these tables:

FOREIGN TRADE OF CHINA BY COUNTRIES IN 1913, 1920 AND 1921.

Countries of Origin and Destination	Imports into China			Exports from China		
	1913	1920	1921	1913	1920	1921
Austria-Hungary	\$3,015,404	\$346,783	\$26,387	\$1,149,455	\$2,563,374	\$19,213
Belgium	11,716,396	6,113,093	8,086,991	4,854,154	4,026,651	1,693,694
British India	35,619,816	39,967,693	26,899,282	4,590,113	10,772,649	7,401,427
Canada	1,378,339	24,823,983	8,074,130	483,722	1,278,294	772,087
Dutch East India	4,684,330	12,995,200	9,794,131	1,931,653	4,962,530	6,041,114
France	3,872,510	6,000,578	7,235,744	90,215,965	25,830,296	19,198,314
French Indo-China	3,470,863	4,612,628	3,922,714	1,399,265	3,251,499	2,068,320
Germany	20,865,789	6,663,825	10,145,130	12,624,204	2,166,403	5,148,176
Hongkong	121,241,377	195,955,402	175,664,940	36,850,802	167,848,113	116,185,058
Italy	468,688	420,58	961,197	1,167,825	6,787,630	3,139,560
Japan (including Formosa)	88,932,142	281,837,115	159,873,020	53,652,830	174,571,319	130,804,153
Manila	4,886,355	12,101,714	13,808,090	3,672,188	5,826,299	4,373,593
Netherlands	1,044,281	4,621,381	3,423,966	6,445,403	12,995,106	5,639,979
Philippines	1,009,249	1,842,58	2,774,057	565,500	2,933,482	1,629,349
Russia	14,232,044	11,839,157	6,637,379	33,309,246	17,812,113	17,377,725
Singapore, Straits Settlements, etc.	6,465,446	9,597,792	6,103,746	5,000,334	20,342,964	14,790,654
United Kingdom	71,628,385	169,019,541	13,951,068	12,120,865	56,339,578	23,494,696
United States	26,106,393	176,134,723	133,600,135	27,917,698	82,547,985	68,051,780
All other countries	2,138,011	26,061,097	16,784,151	5,499,673	63,340,183	30,344,108
Total	422,775,535	*983,951,054	*708,966,258	299,051,963	966,206,499	456,954,208

\* Includes \$43,383,270 worth of re-exports in 1920 and \$20,313,204 worth of re-exports in 1921.

CHINA'S FOREIGN TRADE IN 1921 AND 1922.

Countries of Origin and Destination	1921		Countries of Origin and Destination	1922	
	Haikwan taels	Haikwan taels		Haikwan taels	Haikwan taels
IMPORTS			EXPORTS		
Hongkong	231,138,000	239,300,000	Hongkong	152,872,000	170,000,000
Japan	210,256,000	231,400,000	Japan	172,111,000	159,900,000
United States	175,790,000	169,000,000	United States	89,542,000	97,000,000
Great Britain	149,936,000	145,300,000	France	23,945,000	40,800,000
India	35,380,000	43,100,000	Great Britain	30,914,000	38,500,000
Germany	13,549,000	24,700,000	Russia and Siberia	22,865,000	39,200,000
Other countries	90,170,000	92,600,000	Other countries	109,038,000	109,000,000
Total	906,122,000	945,400,000	Total	601,255,000	654,900,000

TRADE OF CHINA BY PORTS IN 1913, 1920 AND 1921.

Ports	1913	1920	1921
Antung.....	\$7,361,985	\$64,950,264	\$38,501,389
Anoy.....	9,972,733	14,287,505	12,096,611
Canton.....	55,051,066	112,329,253	85,751,183
Chefoo.....	7,346,363	16,794,650	16,023,441
Chinkiang.....	3,257,892	7,238,026	4,502,731
Chingwangtao.....	3,832,773	8,741,204	8,175,197
Dairen (Dalny).....	43,665,266	224,307,517	128,467,733
Foodow.....	10,362,678	10,796,274	11,356,384
Hankow.....	37,794,953	66,783,843	43,870,769
Harbin.....	2,960,828	7,063,353	877,539
Kiaochow (Taingtiao).....	21,075,532	49,213,631	32,912,696
Kiungchow.....	4,362,630	6,410,608	5,246,749
Koangmoon.....	6,132,914	8,080,764	6,212,667
Kowloon.....	32,273,011	48,472,553	51,592,078
Lappa.....	12,661,920	21,881,465	23,171,461
Manchul.....	10,390,888	9,437,720	3,866,168
Mengta.....	14,615,358	26,903,770	13,735,065
Nanking.....	1,961,410	13,003,532	3,205,634
Newchwang.....	14,037,534	12,699,017	11,540,217
Pakhoi.....	2,052,810	4,984,638	3,657,234
Sanahui.....	4,395,651	3,696,886	7,613,068
Shanghai.....	312,401,985	710,886,914	483,391,785
Suifuho.....	16,163,413	12,537,715	15,953,510
Swatow.....	21,033,490	31,106,961	26,700,771
Tengyueh.....	2,322,433	6,946,656	3,759,905
Tientsin.....	44,115,724	108,983,262	96,453,270
Wuchow.....	10,648,178	21,835,631	8,851,327
All other ports.....	12,559,464	26,030,143	16,485,666
Total.....	733,785,416	1,650,137,552	1,155,320,498
Re-exports.....	11,958,518	46,283,270	20,313,204
Net Total.....	721,826,898	1,603,774,282	1,145,607,292

VESSELS ENTERED AND CLEARED AT CHINESE PORTS IN 1913, 1920 AND 1921.

Nationality	1913		1920		1921	
	Number	Tonnage	Number	Tonnage	Number	Tonnage
Chinese.....	121,738	19,003,944	135,377	27,553,309	139,820	31,701,479
Foreign Type.....	36,196	14,744,325	50,791	23,632,198	54,817	27,063,398
Junks.....	85,632	8,150,619	84,696	4,021,111	84,703	4,728,090
American.....	2,458	898,750	5,547	7,718,651	5,016	4,310,001
British.....	32,186	38,120,390	39,543	40,315,707	38,855	43,326,445
Dutch.....	86	122,722	78	184,164	84	255,343
Danish.....	269	401,077	409	558,820	498	1,145,235
French.....	1,020	1,282,763	603	852,979	1,240	1,221,758
German.....	5,832	6,320,466	816	195,900	866	165,339
Italian.....	22,716	23,422,437	25,152	28,161,992	25,385	31,738,783
Japanese.....	637	739,228	171	418,511	615	508,497
Portuguese.....	816	138,330	656	98,864	470	212,750
Russian.....	3,263	1,687,796	2,466	958,656	1,096	857,886
Swedish.....	27	71,065	22	70,418	24	83,290
All others.....	64	285,802	69	74,634	74	86,028
Total.....	190,738	93,384,580	210,609	104,366,095	214,566	114,619,544

FOREIGN POPULATION AND BUSINESS FIRMS IN CHINA.

Nationality	Number of Persons			Number of Firms		
	1913	1920	1921	1913	1920	1921
American.....	5,340	7,269	8,230	131	409	412
British.....	8,966	11,082	9,298	590	679	703
Danish.....	364	545	547	14	27	28
Dutch.....	161	401	486	10	27	31
French.....	2,292	9,753	2,453	106	186	223
German.....	2,949	1,013	1,255	296	9	92
Italian.....	355	504	587	39	87	42
Japanese.....	80,216	153,918	144,434	1,269	4,278	6,141
Portuguese.....	3,486	2,282	3,493	46	65	152
Russian.....	56,765	144,418	68,250	1,229	1,896	1,613
Norway.....	645	132	193	6	11	14
All others.....	1,295	1,757	1,543	69	53	61
Total.....	163,827	326,069	240,769	3,805	7,375	9,511

\* Including 561 proteges.

Machinery Market in China.

The Chinese demand for the various kinds of machinery used in the development of the country shows a great increase for the year 1921 as compared with the remarkably prosperous year of 1920. Imports of almost every line of machinery necessary to develop the rich resources of China show increases. Demands are coming from places remote from treaty ports, which 10 years ago would not have dreamed of industrial improvement. In 1913 the imports of machinery of all descriptions, including parts, totaled \$5,224,066; in 1920, \$28,042,464; and in 1921, \$42,292,313.

Textile machinery imported into China in 1921 amounted in value to \$20,292,000, as compared with \$3,487,000 in 1920. Of the 1921 imports, Great Britain supplied 42 per cent, while 44 per cent came from the United States and Canada, and the balance principally by Japan. Germany furnished only one-half of 1 per cent. Canadian shipments probably originated largely in New England. It is probable that most of the machinery from Japan was either second-hand equipment from other sources or else was of the type that is not power-driven and therefore not of the factory type quoted above.

A considerable increase was also shown in the imports of propelling machinery, which rose from \$2,706,000 in 1920 to \$3,876,000 in 1921. The origin of these imports in 1921 is not yet available. In 1920 Great Britain was the principal source for machinery of

this kind (50 per cent came from that country), followed by the United States, Hongkong and Japan.

Imports of agricultural machinery into China were valued at 112,000 taels in 1913, 1,000,000 taels in 1920, and 2,000,000 taels in 1921. Of the 1920 imports, the United States supplied about 50 per cent, while approximately 25 per cent was purchased from Canada, and 13 per cent came from Japan.

#### Imports of Electrical Materials and Fittings.

Electrical materials and fittings were imported in considerable quantities in 1921, which indicates a growing demand for western lighting materials. Concerning this market the statistical secretary of the Chinese Maritime Customs says:

The satisfactory development of this branch of the import trade has continued unimpeded. The customs figures for the importation of electrical materials and fittings are 13,200,000 taels for 1921, which is a noteworthy advance over the 6,300,000 and 5,000,000 taels recorded for 1920 and 1919 respectively. As might be expected, the adverse trade conditions have caused a marked decline in the sale of small lighting plants, which, however, may also be partly due to the installation of new, or the improvement of existing, plants for public light services. Several contracts for large power and light plants for places in the interior were settled during the year, and increasing tendency to install larger units of 1,000, 2,000 and 5,000 kilowatts is noticeable, while only a couple of years ago 200 and 400 kilowatts were considered sufficient to meet requirements. Current is now supplied during the day in several important centers, instead of the plant being run during the night only, as has hitherto been the practice. Nanking, Soochow, and Hangchow are cases in point.

As regards electrical accessories, fittings and lamps, Japanese manufacturers have held the market for wires and cables, porcelain insulators, etc.; Dutch manufacturers for lamps; and American manufacturers for the better-class fittings and glassware. Toward the end of the year German glassware fittings appeared on the market at prices which undersold the American product. Altogether this line of trade is in a flourishing condition, with good prospects ahead.

#### No Improvement in Kerosene and Lubricating Oil Trades.

As a result of the generally depressed business conditions, the Chinese consumption of kerosene oil has shown no improvement in 1921 over 1920. Prices remained very steady throughout the year because of the comparative stability of the exchange, and business was somewhat improved in the latter months of the year. The speculative buyers of 1920 did not appear in any great numbers in 1921. The kerosene trade for the year 1921, while not showing any developments, may be considered fair.

American oils were imported in slightly smaller quantity in 1921 than in the preceding year, as was also the case with Borneo oil. Japanese oil was not imported during the year, nor was Russian. Sumatran oil was imported in smaller quantity. Lubricating oil is an important article of import into China. The imports for 1920 were 5,776,532 gallons, and for 1921 they were 4,349,558 gallons.

#### The Chinese Lumber Trade

Lumber, which is another important item from the American standpoint, was imported in smaller quantities in 1921 than in the preceding year. The values also were much below those of 1920. There were considerable speculative operations in lumber during the reconstruction period after the world war, and these operations have not yet been entirely brought to normal.

The lumber industry in China during the year was quite active and the volume of lumber consumed compared favorably with the 1920 consumption, although during 1921 there was a great fluctuation in the local selling market, which has not kept pace with the producing market. This resulted in losses to the selling concerns during the first of the year, and it is stated that exceptionally small profits were received during the latter half.

This condition was particularly noticeable in the sale of Douglas fir, which is the most important kind of lumber sold by the United States to China. While it is the standard construction lumber, and is used in larger quantities than any other species, during the past year lumber from Singapore arrived on the market in considerable quantities and has been used in construction work. Philippine woods (lauan, almon and apitong) are also coming into use in China, being used largely for interior work and to some extent in furniture making.

#### Imports of Aniline Dyes.

In regard to aniline dyes, the statistical secretary of the Chinese Maritime Customs says:

The trade in aniline dyes and artificial indigo during 1921 was influenced by the same adverse circumstances that hampered the import trade in general, such as falling exchange, heavy stocks, and weak markets. The outstanding feature of the year was the drastic continuous fall in market prices. Throughout the whole period of the war, and for a considerable time after the armistice, the supply of dyestuff in China did not meet the demand. This, coupled with the then favorable exchange, resulted in selling prices remunerative alike to the foreign importers and Chinese dealers. The situation was completely reversed during 1921, when a falling off in the demand and the re-entry of Germany as a factor into the world's markets resulted in keen competition for the China trade and a sensational drop in prices, which at the close of 1921 were not more than half of the prices ruling in the previous year.

In spite of these unfavorable circumstances the importation of aniline dyes in 1921 rose from 7,700,000 to 8,000,000 taels, while artificial indigo showed a slight decrease in value, from 15,300,000 to 15,200,000 taels. Quantities imported were also slightly greater in the case of both commodities.

#### Imports of Cotton, Wheat and of Railway Equipment.

China's importations of cotton and wheat during 1921 are interesting. Two American cotton firms have opened offices in Shanghai, and while China will be in the market for American cotton because of the rapid development in cotton textile manufacture, it can not be expected that wheat or flour will find a market there during normal years.

In railway equipment—cars, locomotives, rails, etc.—American manufacturers did a considerable business during 1921, although severely handicapped by exchange situation in competing against European manufacturers. American manufacturers, however, were able to offer effective competition, through their ability to finance transactions and guarantee deliveries. The Chinese Government railway commitments have reached a point which leaves but little margin for credit transactions for the coming year.

#### Field for Motor Vehicles.

There is probably no field in which American manufacturers have a stronger relative position in China than in the supply of motor cars. Apparently 80 per cent of the motor cars now in use in China are of American make. The good-roads movement is spreading and the next few years will doubtless see a great extension in construction of roads, as a result of the present movement.

#### Iron and Steel Trade.

The year 1921 began with a most gloomy outlook for the import trade on account of the unparalleled drop in silver exchange toward the end of 1920, and with millions of dollars' worth of goods, particularly cottons and metals, contracted at high prices on a high silver exchange, yet to be delivered. The cotton piece goods market strengthened materially in the last quarter of the year and closed very favorably before the Chinese New Year.

The Chinese steel market was extremely slow in 1921. From figures submitted showing percentage of tonnage sold each month during 1921 for various classes of steel manufactures, it is noted that no business was done during the months of January, February, March and April. Some rails and a small quantity of pipe were sold during May. The only order for plates given during the year was in June, and 4 per cent of the pipe sold was in that month. July showed very little improvement in any steel products. In August, 9 per cent of the year's sales of galvanized sheets and 85 per cent of the rail tonnage were made. September showed improvement in black sheets, galvanized sheets and tin plate. Eighty-three per cent of black sheets, 30 per cent of galvanized, and 25 per cent of tin plate were sold during September. October showed activity in pipe, 29 per cent being sold in that month, and 14 per cent of the tin plate was sold in October. During November, the banner month for the year, 82 per cent of the steel bars, 11 per cent of the galvanized sheets, 61 per cent of the tin plate, 65 per cent of the wire nails, and 42 per cent of the pipe were sold. December showed a drop to 18 per cent in mild steel bars, 7 per cent in galvanized sheets, 35 per cent in wire nails, and 20 per cent in pipe. The only product that showed an improvement in December over the month of November was black sheets. Fourteen per cent of the black sheets were sold in December as against 83 per cent in September.

An added depressing influence was the fact that the expectations of manufacturers and buyers have not been entirely realized



in the matter of stabilization of prices. It is true that some lines, like tin plates and tubes, have shown upward tendencies, but nails and bars have continued soft. Galvanized sheets have remained fairly firm. The advance of the London-New York cross rate from about \$3.50 to \$4.59 has had a most wholesome effect by way of aiding American competition in the China market. It has proved beneficial in combating the advantages of continental exchange. The inability of German and Belgian manufacturers to make early deliveries has also been distinctly helpful to American manufacturers.

#### Silk Exports from China.

Raw silk occupies the first position in the export trade of China. This item includes cocoons, white, yellow, wild, filature, and non-filature. The following table shows the principal destinations of these silk exports in 1913, 1920 and 1921:

PRINCIPAL DESTINATIONS OF RAW SILK EXPORTED FROM CHINA IN 1913, 1920 AND 1921.			
Kinds of Silk	1913	1920	1921
	Pounds	Pounds	Pounds
Raw white.....	13,401,600	8,744,000	12,098,265
Hongkong.....	6,374,133	4,467,067	6,626,933
France.....	3,286,534	1,834,133	1,423,467
United States.....	2,351,334	1,882,667	3,620,933
Raw yellow.....	2,510,933	2,260,000	3,066,067
British India.....	1,471,600	1,479,733	1,556,667
France.....	370,534	410,533	1,024,267
Raw wild.....	3,984,933	2,904,667	4,944,533
Japan.....	498,133	1,785,660	3,775,066
United States.....	1,819,867	446,667	626,133
Waste, including yarn.....	15,516,267	11,334,800	9,715,600
Hongkong.....	3,286,133	3,986,000	3,845,133
France.....	4,582,400	2,061,733	2,468,400
Great Britain.....	2,662,134	1,715,600	591,733
United States.....	633,867	1,942,200	1,366,723
Japan.....	635,733	972,000	781,067
Cocoons and refuse.....	6,034,133	5,906,400	6,914,400
France.....	3,444,534	2,127,333	1,858,800
Japan.....	1,532,333	1,772,667	3,695,467
Italy.....	726,400	1,058,800	210,267
Total.....	42,317,865	30,639,866	36,771,867
SHIPPED TO:			
Hongkong.....	12,424,665	8,779,733	11,445,467
France.....	12,523,868	6,821,333	7,036,667
Japan.....	2,683,732	4,574,000	8,272,000
United States.....	4,960,911	4,435,533	6,988,400
Great Britain.....	3,147,867	2,000,000	888,400
Italy.....	3,175,667	1,638,133	650,800
British India.....	1,845,466	1,697,867	1,826,000

Contributing causes for the high prices prevailing in steam filature and white silk in 1921 were short crops and a fire in Shang-

hai in March, which destroyed or damaged some 3,000 bales of steam filature and about 3,325,000 pounds of cocoons. The destruction of this quantity of silk forced prices up, and it happened just at a time when the demand was increasing. However, business was resumed at the higher level and fair quantities changed hands for New York and Lyons. The declared exports of raw silk to the United States through the various consulates in China during the year 1921 were valued at \$52,808,567.

Silk piece goods were exported in 1921 to the value of 30,274,-652 taels (\$23,008,735), as against 24,317,477 taels (\$19,910,496) in 1920. This item stands third in monetary importance in the exports of China. The declared exports of silk piece goods to the United States in 1921, as compiled by the consular officers in China, amounted to \$2,095,192.

#### The Tea Trade of China.

Although the tea trade of China during recent years has been in a deplorable condition, the 1921 season is regarded as having been generally a good one for all concerned. The statistical secretary of the Chinese Maritime Customs says:

Old stocks were cleared up in 1921 and fair prices were realized. With a view to disposing of old black teas in stock, the new crop of Hankow and Kiukiang black teas was greatly restricted. This decrease in output, assisted by a short production of Indian and Ceylon teas, had the desired effect, and nearly the whole of last season's stock was disposed of. Both the Keemun and Ningchow crops were much below average in quantity. Owing to last season's demand being chiefly for the superior qualities, the planters prepared for this season only the fine or "crack" crops, neglecting the medium and common grades. The quality, however, even of the better brands, was poor when compared with the same grades of former seasons. Nevertheless, these teas were all quickly absorbed on the Shanghai markets, where they brought good prices.

Hankow teas were especially poor in quality. As the planters had no packing materials on hand, these teas were forwarded to Hankow from the plantations in bags. After arrival at Hankow they were re-fired and packed in the usual half-chests. The bulk of the lower qualities was taken up by Shansi dealers at prices ranging from 11 to 13 taels per picul (133½ pounds), and was sent by rail to Kalgan. These

dealers are also reported to have purchased, during 1920 and 1921, some 40,000 half-chests of old tea from the 1918 and 1919 seasons at 6 to 9 taels per picul, all of which were likewise transported to Kalgan.

Green teas from Kiukiang also commanded a good market, owing to demand from Japan, caused by short supply of the Japanese leaf. The quality was generally disappointing, but prices were fair and clearances of old stocks satisfactory.

Generally speaking, the China tea trade is in a bad state if compared with former years, even though its downward course was arrested by the good season of 1921-22. In sanctioning the extension for another year of the remission of export duty on all teas sent abroad, which was to expire on October 10, 1921, the Chinese Government has taken a step in the right direction, but the differential duty of 2d. per pound against China tea levied by Great Britain still constitutes a great handicap.

The destinations of tea exported from China in 1913, 1920, and 1921 are shown in the following table:

DESTINATION OF TEA EXPORTED FROM CHINA IN 1913, 1920 AND 1921				
Countries of Destination.	1913	1920	1921	
<b>BLACK TEA</b>				
Hongkong.....	13,028,000	7,988,000	8,630,133	Pounds
Russia.....	29,448,000	427,200	164,333	
Great Britain.....	9,816,933	2,387,200	3,547,967	
United States.....	6,541,400	2,746,267	1,903,200	
Australia, New Zealand, etc.....	1,135,400	435,733	195,900	
Manao.....	1,222,533	850,600	764,000	
France.....	968,266	301,533	92,134	
Canada.....	705,733	132,800	49,200	
Singapore and Straits Settlements.....	881,334	515,867	617,500	
Siam.....	633,466	110,400	389,467	
All other countries.....	8,948,866	1,189,866	2,564,666	
Total.....	73,027,733	17,044,266	18,210,400	
<b>GREEN TEA</b>				
United States.....	12,620,267	6,756,933	15,782,933	
Russia.....	9,247,467	2,933	10,134	
France.....	7,578,533	3,562,000	1,692,666	
British India.....	2,064,534	1,190,133	3,744,267	
Turkey, Egypt, etc.....	1,688,800	2,218,000	4,375,200	
Canada.....	961,733	326,800	675,866	
Hongkong.....	638,667	4,740,133	7,152,667	
Great Britain.....	327,866	2,238,134	835,967	
All other countries.....	2,151,199	789,067	1,617,333	
Total.....	36,979,066	21,864,533	35,682,133	

#### Increasing Importance of Egg Industry.

The egg industry has long been an important one in China, but it has become increasingly so of recent years. In 1915 the

value of egg products exported in all forms was \$4,350,290, and in 1921, \$18,779,860. In 1920 and preceding years the most popular form for exporting eggs was in the shape of albumen and yolk, but this is gradually declining, though it constitutes about 40 per cent of the present value of the exports of egg products. French and preserved eggs are finding great favor in the markets of Japan and Europe and are soon expected to become the chief form for exporting eggs.

#### Decline in Oil Exports.

The chief oils exported from China are bean oil, peanut oil, wood oil and essential oils. The quantity and value of each of these oils exported during 1921 were considerably less than in the preceding years. During recent years a greater quantity of oil has been exported in bulk than heretofore. From Nankow wood oil is exported almost entirely in bulk, whereas six years ago scarcely any was exported in this manner. The same is true of bean oil exported from Dairen.

It is interesting to note from the declared export returns prepared by the various consulates in China that while in 1920 considerable quantities of bean oil, cottonseed oil, hempseed oil, peanut oil, perilla oil and rapeseed oil were exported to the United States, none of these items appear in the declared exports for the year 1921. Sesamum oil was exported in 1920 to the value of only \$487, while in 1921 it was valued at \$4,400. The value of wood oil exported to the United States in 1920 was \$9,834,371, whereas in 1921 it was valued at \$3,210,364. Exports from Manchurian ports are not included in these figures.

#### Sesamum-Seed Shipments Below Normal—Cereal Exports.

The Chinese sesamum-seed crop last year, owing to the excessive rains, floods and other climatic conditions, was below that of the preceding year. It is estimated that it did not exceed 50 per cent of normal. Two-thirds of the last season's crop was disposed of and only one-third carried forward, to which should now be added the poor results obtained from the 1921 harvest. It is expected that the supply will not be equal to the demand, so that dealers are holding back, looking for a firm market and high prices.

In 1921 China exported 88,353,033 pounds of millet and kaolin, valued at \$1,172,411; 7,448,800 pounds of oats, worth \$135,140; 4,628,533 pounds of rice and paddy, worth \$1,011,071;

6,555,066 pounds of wheat, valued at \$79,742; and 4,143,066 pounds of barley, with a value of \$50,885.

Wheat was not exported from China in as large quantities in 1921 as in the preceding year. This was due to a reduction in the production and also to the increased demand in China for wheat for milling purposes. There is practically no wheat grown in the immediate vicinity of Shanghai, but, by virtue of its situation, this city has become the center of the flour-milling industry and is likely to gain considerable importance in the future. Shanghai mills produce about 100,000 bags of flour of 50 pounds each daily. The next important center in the milling industry is Wusieh, which is about 60 miles west of Shanghai. There are also several mills in North China as well as in north and in south Manchuria.

#### China's Hair-Net Industry.

During 1920 and 1921 hair nets were exported almost exclusively from the ports of Chefoo and Shanghai. Shanghai re-exported the hair nets that were purchased in Shantung.

The declared exports of hair nets to the United States for the year 1920 were valued at \$6,058,132, while for 1921 they were \$8,572,749. It is a matter of surprise to many Americans that China produces so many of the hair nets sold in the United States. As a matter of fact, the industry has become a very important one to Shantung, where most of these nets are woven. The industry was offered encouragement in 1915, when the export duty was remitted by the Chinese Maritime Customs to encourage its development. The trade has tripled during 1921, as compared with the immediately preceding year. A few firms, chiefly American, have systematically advertised the article in America and Europe, thereby increasing the consumption extensively.

### FOREIGN RIGHTS AND INTERESTS.

#### Extra-territoriality.

Westerners soon found out that they would be obliged to secure for themselves exemption from operation of the native law of China, and so various governments concluded with the Empire of China a series of treaties by which their nationals were so removed from that law. This did not mean, however, that these foreign traders were to live as they pleased, under no restraint, for it was agreed that the foreign treaty powers were to establish their own courts in China and that each power would exercise

jurisdiction over its own nationals. The Individual would thus be subject only to the laws of his own country thus extended abroad for this peculiar and special purpose. This system of judicial arrangements is known to international law as extra-territoriality, and the courts so established as extra-territorial courts. It should be borne in mind that these rights of exemption from the operation of Chinese law are not inherent rights appertaining to every foreigner the moment that he arrives on Chinese soil, but belong only to the nationals of those countries who have concluded treaties to this effect with China. Several nations, especially some of the South American States, have no such treaties, and their citizens could not properly claim any such exemption.

The principle of extra-territoriality, by which foreigners are subject to the jurisdiction of officials of their own nationality, has been accepted by China from the earliest days of intercourse with the outside world.

The underlying importance of this subject to all Americans and American interests in China is such that the following abstract from the Supplementary Treaty between the United States and China, signed at Peking, November 17, 1880. Article IV of this treaty reads:

When controversies arise in the Chinese Empire between citizens of His Imperial Majesty, which need to be examined and decided by the public officers of the two nations, it is agreed between the Governments of the United States and China that such cases shall be tried by the proper official of the nationality of the defendant. The properly authorized official of the plaintiff's nationality shall be freely permitted to attend the trial, and shall be treated with the courtesy due to his position. He shall be granted all proper facilities for watching the proceedings in the interests of justice. \* \* \*. If he so desires, he shall have the right to present, to examine and to cross-examine witnesses. If he is dissatisfied with the proceedings he shall be permitted to protest against them in detail. The law administered will be the law of the nationality of the officer trying the case.

The principles set forth in the above clauses form the basis of the procedure in vogue at the Mixed Courts in China. The United States Court for China was established by Act of Congress, June 30, 1906, and the first term began on January 2, 1907. All judgments of the U. S. Consular Courts in China are subject to review by this Tribunal, from which appeal lies to the Court of Appeals at San Francisco.

As a result of the Washington Conference, a commission is to investigate and report on the abolishment of extra-territoriality, but from present indications no action will result in the next few years and present conditions will continue.

#### Acquirement of Administrative and Trading Rights.

Another form of extra-territoriality in China has been the acquirement by western nations of certain administrative and trading rights in certain limited areas of the principal Chinese ports. With the exception of missionary organizations, foreigners have not been allowed to own land or to carry on business in the interior of China and have been restricted in these matters to certain specified ports which have been thrown open by the Chinese Government to foreign trade. The word "port" is not used in the sense exclusively of a place upon the seacoast, but in the literal meaning of a "gate" or any place of entry or exit where customs charges are levied; and there are thus treaty ports on the rivers of the interior and upon the frontiers of the west where overland trade enters from other parts of Asia.

At some, but not all, of these "ports," certain administrative rights have been given to the foreigner, corresponding approximately to the functions of our own municipal administrations, namely, control of police and fire protection, construction of roads and all public works, public education, lighting, water, transportation, and the raising of taxes for this purpose. These rights are restricted to certain well-defined areas, outside of which the Chinese regain full control in all such matters. Within the limits of these ports, land may be rented in perpetuity by foreigners, and the Chinese deeds for it are registered at the consulate of the national concerned. As stated above, missionary organizations alone are entitled to secure land in the interior.

#### Concessions and Titles in China.

Concessions in China have been and still are to a great extent governed by treaty and special agreements rather than by Chinese legislative or other enactment, and questions concerning them are as much diplomatic and political as they are commercial and economic. The absence of a system of laws for the granting of concessions and titles is one of the greatest obstacles to the early development of China's great resources, and one of no less seriousness is the "sphere of influence" or "sphere of interests." It is fervently hoped, and by optimists believed, that the economic future of China will eventually be brightened by the abolition of such

"spheres" or at least by a pooling of international interests which will open the doors of China freely to the enterprise of all nations on a competitive basis. In the meantime the problems of the intending investor are complicated by the provisions of a vast number of general and special treaties and of loan agreements and "undertakings."

#### Land Tenure in China.

The Commercial Treaty Between China and United States makes certain definite provisions regarding the rights of American citizens in China.

Article III. "Citizens of the United States may frequent, reside and carry on trade, industries, and manufactures, or pursue any lawful avocation in all the ports or localities of China which are now open or may hereafter be opened to foreign residence and trade and, within the suitable localities at those places which have been or may be set apart for the use and occupation of foreigners, they may rent or purchase houses, places of business, and other buildings, and rent or lease in perpetuity land and build thereon. They shall generally enjoy as to their persons and property all such rights, privileges, and immunities as are or may hereafter be granted to the subjects or citizens of the nation the most favored in these respects."

There are at present 48 treaty ports, with an additional 30 towns "opened to trade," to which the above is applicable. Privilege of travel is extended to all parts of China, barring minor bandit or locally disturbed districts.

#### Corporate Organization Under Chinese Law.

China has a corporation law, but it is inadequately administered. If a group of Chinese wish to organize a corporate enterprise they may make application through the local magistrate for registration, setting forth in the application particulars as to capital, nature of business, names of directors, and a list of shareholders with the stocks held by each. The magistrate, after investigation, transmits the application to the provincial industrial bureau, which in turn passes it on to the governor, who transmits it to Peking to the Ministry of Agriculture and Commerce, if a business or industrial enterprise; to the Ministry of Finance, if a banking enterprise. There are a number of Chinese cotton mills so organized in China, but Japanese capitalists are taking mortgages on these plants, in addition to which Japanese cotton

mills and other factories are multiplying rapidly in China, being installed with the idea of taking advantage of the better labor conditions obtaining in China over those in their home country so as to more effectively tap the Chinese market.

Considering the favorable opportunities for the investments of capital in private industrial enterprises in China, American capital has been very slow to take advantage of the China labor situation in order to strengthen its position in the trade of China in competition with Japanese, British, German, French and Belgian interests. One reason for this has been the difficulty experienced by American corporations formed under State charters and subject to both state and national taxation at home, in competing with British, French and Japanese corporations, who operate under laws specially designed for doing business in China, such as the Hongkong ordinances, and free of all income tax, either corporate or individual.

#### China Trade Act.

In order to remove some of the disabilities under which American companies in China operate in competition with foreign concerns, Congress passed the China Trade Act on September 19, 1922, authorizing the incorporation of companies for the promotion of American trade in China. The registrar, appointed by the Secretary of Commerce, who has charge of the administration of the Act, must be an official of the Department, resident in China. The decisions of the registrar are subject to approval by the Secretary. The Act provides that the title of China Trade Act corporations end with the legend "Federal Inc., U. S. A." Companies operating under this Act are allowed credit on income derived from sources within China of an amount equal to that proportion of such income which the amount of capital stock owned by American and Chinese citizens, resident in China, bears to the entire capital stock of the corporation. It is expected that perfection of the China Trade Act will place American firms operating in China on a parity with their foreign competitors and greatly increase the investment of American capital in China.

#### FINANCES.

##### China's Present Financial Situation.

The total indebtedness of the Chinese Government, as it stood at the end of September, 1922, was \$1,906,000,000 (Silver), or less than \$5.00 (Silver) per capita of the Chinese population. The

figure is official, given by the Ministry of Finance in a carefully prepared statement which was intended for public information. The per capita debt of China is the smallest of all the nations in the world, and if the ambition of the powerful militarists can be successfully curbed, it can be paid off without considerable difficulty.

A cursory digest of the statement of the Finance Ministry accompanying the Twelfth Year Budget, besides showing the total indebtedness of the Chinese Government to be the smallest of any foreign country, is highly interesting in many other respects. The statement contains information a mastery of which will enable one to have a clear grasp of the Chinese national finances. Never has so comprehensive an account of China's national receipts and expenditures, ever since the foundation of the Republic twelve years ago, been given out.

Outstanding facts in the statement may here be summarized, to save time for those who are too busy to be able to make a detailed study of the tables. The domestic loans quoted in silver as they stood in 1921, September, were \$208,400,000 with security, and \$249,000,000 without security, and the foreign loans amounted to \$1,029,000,000 secured and \$240,000,000 unsecured, making a total of \$1,726,000,000. The combined Chinese and foreign debts unsecured, the repayment of which is now due, amount to \$480,000,000. The task of the Government to provide funds for their redemption is not an easy one. The unpaid military and civil expenses have been accumulated to the sum of \$180,000,000, and it is next to impossible to meet both obligations even partially at present.

Against this national indebtedness, which appears huge in the Chinese eyes, the Government can count as its monthly income a little over two hundred thousand dollars. Between January and September, 1922, it received altogether \$2,087,105, or \$231,000 per month. The money came from the mining, stamp, wine and tobacco and income taxes, and it is interesting to note that not a cent was received from the Customs, or Salt Surplus, which had long been earmarked for other purposes. Leaving alone for the moment the question of paying off the heavy indebtedness, the monthly income of two hundred and thirty thousand dollars is far from sufficient even to meet the current expenses to maintain a semblance of government and feed a million and a half soldiers. The monthly current expenses of the Chinese Government are \$9,200,000, according to the latest budget, and if strenuous efforts are made to reduce them to say \$4,000,000, it will still be hard to raise the deficit.

With the Government's financial credit entirely gone at home and partially abroad, even to conduct a Ministry of Loans success-

fully is almost an impossible task. Whenever the Government is on the money market for loans, the market instantly becomes tight. Whether the Governmental credit can be restored rests entirely with the military leaders. The Chinese people have money, and if they can be made to have confidence in the promise of their rulers, ready cash to any amount, and even to the extent of paying off the national debt of China at one time, might be forthcoming.

#### Secured and Unsecured Debts of the Chinese Government.

The estimated total debt of the Chinese Government is made up as follows:

	Mexican Dollars: ratio 1
	Mexican Dollar = \$ .50
	U. S. Gold.
1. General Foreign Loans.....	\$267,979,252.34
2. Foreign Railway Loans.....	334,802,631.00
3. Foreign Indemnities.....	482,841,744.00
4. Internal Long Term Loans.....	275,226,738.00
5. Internal Short Term Loans.....	69,101,978.54
6. Treasury Notes, etc.....	18,640,000.00
Total.....	\$1,449,592,343.88

Quoting from the Bulletin of the Chinese Government Bureau of Economic Information of June 3, 1922, attention was called to the fact that the last two items in the above list do not contain all the short term loans and the Treasury Note Issues, the amounts of some of which cannot be definitely ascertained. These amount to between Mex. \$450,000,000 and \$500,000,000, or an approximate total debt of \$1,900,000,000 silver.

In a memorandum of the Inspector General of Customs, dated October 21, 1921, he gives a statement of the obligations contracted by the Chinese Government for which no loan service has been arranged and which are to all intents and purposes unsecured. These amount to approximately Mex. \$364,410,168, divided as follows:

	Mex.
1. Foreign Obligations.....	\$217,047,073.00
2. Native Obligations.....	41,412,078.00
3. Concealed Debt (at least)...	65,000,000.00
4. Advances on Salt (Foreign and Native)....	40,951,017.00
Total.....	\$364,410,168.00

Among the items included in the "Concealed Debt" are salaries in arrears, unpaid bills, etc., of the various Ministries,

and small loans contracted independently of the Ministry of Finance, which, the Inspector states, amount to a considerable sum, estimated at ten million dollars. It is known, of course, now, that the unpaid bills of the Ministry of Communications alone amount to more than \$50,000,000, so that \$40,000,000 at least should be added to the above total on this item alone.

Furthermore, since this statement was made the \$14,000,000 Treasury Note Issue of Chinese New Year was put through; more than ten million dollars of the \$96,000,000 Salt Surplus Loan Bonds have slipped out into the open market; and Treasury notes to the amount of \$2,000,000 were issued at the Dragon Boat Festival. Hence to Sir Francis Aglen's total of \$364,000,000 there must be added at least these various items. The total under this heading would then stand at least as follows:

1. Estimate, October 21, 1921.....	\$364,000,000.00
2. Additional Concealed Debt.....	40,000,000.00
3. 14 Million Treasury Notes.....	14,000,000.00
4. 96 Million Salt Bonds.....	10,000,000.00
5. Dragon Boat Treas. Notes.....	2,000,000.00

Total.....\$430,000,000.00

Recently the unpaid salaries and smaller unpaid bills of the various ministries have been estimated at \$20,000,000. Thus, the unsecured obligations of the Chinese Government, based upon conservative estimates, must amount to at least between \$450,000,000 and \$500,000,000.

#### Sources of Chinese National Revenue.

The principal revenue-producing agencies of the Chinese Government are the Maritime Customs and the Salt Gabelle, as the Salt Revenue Administration is popularly designated. These services are wholly or largely supervised by foreign officers employed by the Chinese Government. In 1922 the collections of the Maritime Customs amounted to about \$48,052,000 (gold). Although the Chinese Postal Department was not designed as a revenue-producing agency, it has nevertheless, under the direction of a foreign co-director and a staff of European and American assistants, developed into an organization which annually produces a surplus of revenue over administrative expenses. The nationally owned telegraphs, telephones and railways are fiscally completely under Chinese control, but foreign technical experts are employed. The railways for the most part, with the notable exception of the Peking-Suiyuan line, have been built with capital

from abroad, and the terms of the loan agreements have specified the degree of management the lenders should have in the operation of the lines. Profits from the telegraphs, telephones and railways have covered large surpluses into the treasury of the Ministry of Communications.

The Maritime Customs was originally established to insure collection of import and export duties from foreign merchants on behalf of the Chinese Government. Since then it has developed the Chinese Postal Department, which has now become an independent Government Organ. The lighting of the coast and inland waterways; river and harbor conservancy at Shanghai, Tientsin, Newchang and elsewhere; and the customs colleges are also under the management of the customs officers.

Since 1900 the customs has assumed the service of all of China's foreign indebtedness, including the payment of interest and amortization of principal of the Boxer indemnities. Moreover, after the revolution of 1911, the Inspector General of Customs guaranteed the payment of certain internal or domestic issues, particularly those of 1915 and 1918, from surplus of customs receipts not specially set aside for other purposes. As the deposits of the Postal Savings Bank have been partially invested in these issues, it has been of the highest importance to maintain their service and security. The distinctly foreign character of the Customs Service could be justified only by the nature of the services performed on behalf of the Chinese Government; that is, services largely involving foreign interests. The direct import and export trade of China is almost entirely in the hands of non-Chinese merchants; ships trading to China ports are largely of foreign registry, and foreign operated lighthouses, harbors and waterways principally serve them.

Upon the formation of the first international banking consortium in 1913, a loan of \$25,000,000 was made to the Peking authorities to reorganize and finance the newly established Republican Government. As security the annual receipts from the tax on salt was offered. The contract between the Chinese Government and the loaning group, consisting of British, French, German, Russian and Japanese banks, provided that the system of collecting the tax on salt should be modernized with the assistance of foreign advisors. Beginning in May, 1913, arrangements were made for the collection of the salt tax at certain specified places, or district inspectorates, in the provinces, for deposits in the banks representative of the loaning group. The per capita consumption of salt in China is estimated at 12 pounds annually, exclusive of salt required for manufacturing

purposes. A tax on salt, while admittedly a burden imposed on a necessity of life, has proved, as levied in China and India for centuries, a ready source of governmental income in such nations of low per capita wealth.

Production, transportation and sale of salt in China is strictly limited, by treaty with the foreign powers, to natives of China. The net collection of the salt tax, after defraying the administrative charges increased from \$60,409,676 (Mexican) to \$85,789,000 (Mexican) in 1922. This increase has been generally maintained despite disturbed political conditions. About one-third of this revenue was retained by local military leaders at the source, ostensibly for the payment of overdue salaries for their troops due them by the Peking Government.

#### Silver—The Chinese Medium of Exchange.

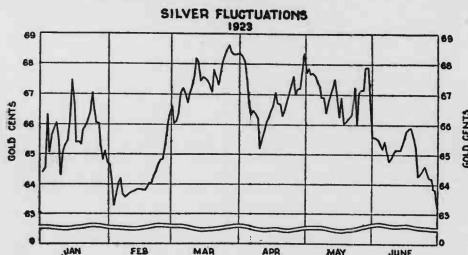
Although there is no uniform currency in China, the country is actually on a silver basis and all domestic commercial transactions are conducted in terms of that metal. The result is that China's merchandising demand for silver exercises a considerable influence on the world market price for silver, causing it to fluctuate, sometimes violently, in sympathy with the Chinese demand for silver. In turn this fluctuation affects import and export movements in Chinese trade in a basic way.

It is important to bear in mind that every time an import or export transaction is consummated in China either silver or gold and merchandise changes hands. The obtaining of gold with which to pay for goods imported from gold basis countries, or silver with which to buy goods from the interior for export, becomes frequently, by reason of silver fluctuations, a risky and difficult transaction. The Chinese merchant who desires to purchase foreign goods for future delivery can readily get a future price in gold from an importer. Conversely, if he wants to buy from the interior for export, he may obtain the future silver price. His problem then becomes that of assuring himself, in the case of an import transaction whether the amount of silver which he has calculated he can pay for the goods and make a profit will purchase enough gold to meet the draft drawn on him for the foreign goods when payment becomes due. Or, in the case of a transaction with the interior for export, the question is whether his gold on hand when the order is placed will buy as much silver to exchange for goods from the interior when payment is due.

The Chinese merchant solves his problem, if he is operating on a non-speculative basis, by purchasing gold or silver forward to meet his future obligations. The speculative import merchant

may decide to take the risk that the silver position will be weaker when payment is due than when his order is placed, in which event he will keep out of the forward exchange market. The speculative export merchant corrects the weakening of silver by buying up gold on the falling silver market in anticipation of his future needs. A rising silver market, therefore, tends to stimulate forward import business, while, on the contrary, a falling silver price increases "spot" business but retards future commitments.

The following graph shows fluctuations in the price of silver from January 1st to June 30th, 1923:



The fall of the silver price late in January was probably due to the announcement by the United States Mint that no further purchases of Pittman Act silver would be made after July 1st. This announcement meant that American silver at the rate of approximately 50,000,000 ounces per annum would be introduced freely into the world silver market. The effect of this was, however, discounted early in February. The rise in silver prices from February to April is ascribed to heavy purchases of gold by import speculators in anticipation of a further drop in the silver price and the concurrent purchase of this silver from the banks by regular export merchants to finance shipments from the interior with silver at a low level. The gradual fall in silver prices since April 1st is doubtless due to unfavorable political conditions in China, which have commenced to impede trade with the interior and thereby decrease the merchandising demand for the metal.

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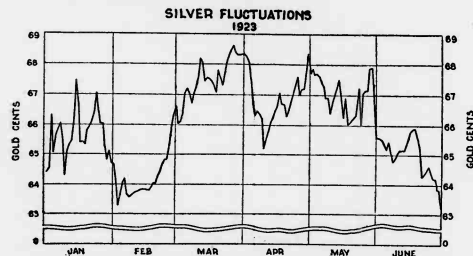
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may decide to take the risk that the silver position will be weaker when payment is due than when his order is placed, in which event he will keep out of the forward exchange market. The speculative export merchant corrects the weakening of silver by buying up gold on the falling silver market in anticipation of his future needs. A rising silver market, therefore, tends to stimulate forward import business, while, on the contrary, a falling silver price increases "spot" business but retards future commitments.

The following graph shows fluctuations in the price of silver from January 1st to June 30th, 1923:



The fall of the silver price late in January was probably due to the announcement by the United States Mint that no further purchases of Pittman Act silver would be made after July 1st. This announcement meant that American silver at the rate of approximately 50,000,000 ounces per annum would be introduced freely into the world silver market. The effect of this was, however, discounted early in February. The rise in silver prices from February to April is ascribed to heavy purchases of gold by import speculators in anticipation of a further drop in the silver price and the concurrent purchase of this silver from the banks by regular export merchants to finance shipments from the interior with silver at a low level. The gradual fall in silver prices since April 1st is doubtless due to unfavorable political conditions in China, which have commenced to impede trade with the interior and thereby decrease the merchandising demand for the metal.

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